WRITTEN TESTIMONY OF USA RICE FEDERATION ON BEHALF OF AN AD HOC COALITION REGARDING U.S. FOREIGN AGRICULTURAL TRADE PROGRAMS IN THE NEXT FARM BILL

BEFORE THE
U.S. HOUSE AGRICULTURE COMMITTEE
SUBCOMMITTEE ON SPECIALTY CROPS AND FOREIGN AGRICULTURE PROGRAMS

June 28, 2001

Summary

To help U.S. agriculture compete for export markets in today's world of increased spending from competitors like the European Union and the Cairns Group, and in which U.S. agriculture continues to experience low and record low prices in some sectors, USDA/Foreign Agricultural Service's Foreign Market Development (FMD) program should be funded annually at not less than $43.25 million in the next farm bill.

The FMD program is an integral part of USDA's arsenal of export programs. To have last year attained an effective/real FMD allocation of the approximately $32 million level Congress began allocating to FMD in the 1986 farm bill, a nominal FMD allocation of $43.25 million would have been needed. Thus, for the upcoming farm bill, FMD should be funded at no less than $43.25 million annually.

USA Rice Federation is a federation of U.S. rice producers, millers and allied businesses working together to address common challenges, advocate collective interests, and create opportunities to strengthen the long-term economic viability of the U.S. rice industry. USA Rice members are active in all major rice-producing states: Arkansas, California, Florida, Louisiana, Mississippi, Missouri, and Texas. The U.S. Rice Producers' Group, USA Rice Council and the Rice Millers' Association are charter members of the USA Rice Federation.

USA Rice Federation is presenting this testimony in support of the USDA Foreign Market Development program on behalf of itself and an ad hoc coalition. The positions being presented represent a broad consensus among farm and agriculture-related organizations that have participated in a Trade Title Working Group, Subcommittee on Export Assistance and Promotion Programs.

I. *Agricultural Exports Mean Jobs to Rural and Urban America.*

Building healthy export demand for U.S. agricultural exports means jobs and economic activity for farmers, cooperatives, processors, and a whole host of supplier and other industries tied to the U.S. agriculture sector. Most people do not appreciate that this includes large numbers of jobs in urban areas, including those related to processing, packaging, transportation and ports, and export services like insurance and financing. In 1997 (the last year for which complete data from USDA/Economic Research Service is available), approximately 1 million U.S. jobs either directly or indirectly depended on agricultural exports. Thus, encouraging and maintaining strong and expanding exports of U.S. agricultural products must be a top priority for everyone in this country, especially elected leaders. The following table elaborates this point.

For the U.S. rice industry, exports are critical. Historically, 40-60 percent of annual U.S. rice production has been shipped overseas. U.S. rice that is not shipped overseas stays in the domestic marketplace, driving down already low prices for rice even further.

According to USDA data, in FY1999, U.S. rice exports of $1 billion supported an estimated 15,200 direct jobs. Indirect jobs are estimated at more than 45,000 (unofficial USDA estimates). The top four states in terms of jobs related to U.S. rice exports were:

1. *Arkansas*, where in FY1999 rice exports supported an estimated 28,400 jobs (7,100 direct and 21,300 indirect jobs). Rice was the largest ag commodity export for the state that year.

2. *California*, where in FY1999 rice exports supported an estimated 12,200 jobs (3,050 direct and 9,150 indirect jobs). Rice was the fifth largest ag commodity export for the state that year.

3. *Louisiana*, where in FY1999 rice exports supported an estimated 9,000 jobs (2,250 direct and 6,750 indirect jobs). Rice was the second largest ag commodity export for the state that year.

4. *Mississippi*, where in FY1999 rice exports supported an estimated 5,000 jobs (1,250 direct and 3,750 indirect jobs). Rice was the fifth largest ag commodity export for the state that year.

Farm Financial Indicators by State: *% of 1997 employment in farm and farm-related jobs:*			
State	**Total State**	**Metro**	**Non-Metro**
Alabama	17.9	14.3	27.5
Alaska	14.7	10.4	18.7
Arizona	12.8	12.3	16.6
Arkansas	20.7	16.5	25.4
California	14.3	14.1	21.5
Colorado	14.3	12.6	22.3

Farm Financial Indicators by State: *% of 1997 employment in farm and farm-related jobs:*			
State	**Total State**	**Metro**	**Non-Metro**
Connecticut	11.0	10.7	15.2
Delaware	13.4	10.9	28.4
District of Columbia	5.9	5.9	
Florida	14.6	14.1	22.9
Georgia	16.5	13.9	23.8
Hawaii	16.2	14.2	22.2
Idaho	20.4	14.1	23.9
Illinois	13.6	12.3	22.1
Indiana	14.8	13.3	19.3
Iowa	22.2	16.5	27.6
Kansas	18.3	12.6	26.2
Kentucky	19.3	15.5	24.3
Louisiana	14.8	13.5	21.0
Maine	16.7	15.4	17.9
Maryland	12.2	11.6	19.7
Massachusetts	12.3	12.3	14.8
Michigan	12.9	12.0	17.9
Minnesota	15.5	11.8	25.7
Mississippi	18.5	13.3	21.4
Missouri	16.3	13.0	25.3
Montana	19.5	16.3	20.6
Nebraska	21.8	14.3	31.2
Nevada	10.5	10.2	12.3
New Hampshire	13.7	13.3	14.3
New Jersey	11.8	11.8	
New Mexico	14.4	12.0	18.8
New York	12.0	11.7	16.7
North Carolina	18.4	15.9	25.5
North Dakota	23.5	16.4	30.2
Ohio	13.7	12.6	19.4
Oklahoma	17.5	13.3	25.6
Oregon	17.3	15.1	23.3
Pennsylvania	14.3	13.6	18.8
Rhode Island	13.0	12.9	14.1
South Carolina	18.1	16.0	24.4

Farm Financial Indicators by State: *% of 1997 employment in farm and farm-related jobs:*			
State	**Total State**	**Metro**	**Non-Metro**
South Dakota	22.3	15.8	26.3
Tennessee	17.2	14.7	24.1
Texas	14.6	12.8	27.2
Utah	13.0	11.4	19.4
Vermont	16.5	15.2	17.2
Virginia	14.2	12.2	23.5
Washington	16.0	14.3	25.8
West Virginia	14.8	14.0	15.7
Wisconsin	17.4	14.6	24.4
Wyoming	16.6	12.2	18.6

Most recent figures. USDA/Economic Research Service.

II. U.S. Agriculture Must Partner with USDA to Maintain and Grow U.S. Exports.

When production exceeds domestic demand, outlets for the farmers' production needs to be identified. This is not something that a farmer may have the ability or the inclination to pursue, and thus the organizations to which the farmers belong become the source of these efforts. Being comprised of grower dues and support in varying degrees, even these organizations are not in a position to risk substantial amounts of their growers' dollars in an effort to open up new markets so a partnership is necessary. In addition, even the largest multinational grain or oilseed exporting firm derives limited profit from spending large sums of money on market development when such action simultaneously develops markets for its competitors.

Thus, the very nature of agricultural products requires that there be a public/private partnership in order to succeed in the export marketplace. Because of the generic nature of agricultural products, participation by individual export marketing firms in market promotions is limited. Most U.S. agricultural products are raw, bulk commodities: wheat, corn, soybeans, cotton, rough rice, cattle or hogs. Some of these products, like corn, barley or soybean meal for animal feed, never reach the consumer directly. Others are available only after processing, as is the case with milled rice, flour or bread, margarine and cooking oil, beef and pork, cotton products. The high-value products, such as fresh fruits and vegetables and fish and forestry products, also require some additional processing before they reach the consumer.

Also, government intervention is often needed in order to overcome barriers to trade like tariffs, sanitary/phytosanitary issues, etc. and the overseas offices of USDA's Foreign Agricultural Service (FAS) prove instrumental in accomplishing those tasks.

Agricultural products face many obstacles abroad. In addition to the fierce competition posed by other countries' export subsidies, U.S. exporters often find themselves thwarted by restrictions imposed by the importing countries' governments. These restrictions may take the form of trade barriers like tariffs, but there are also numerous sanitary/phytosanitary and safety regulations that vary significantly from country to country. This factor alone forces U.S. exporters to deal with the maze of foreign government agencies that write and interpret various rules governing imports and retail sales of food products.

The ultimate barrier, though, may be the overseas retail consumer. The exporter must find a means of convincing this audience that U.S. products are worth trying. To get to the consumer, though, several layers of the marketing system have to be penetrated. The importer needs to be convinced that it is worth their while to work with the exporter to acquire the product. The processor, if there is one, needs to be convinced that the cost to add value to the product will be recoverable. The retailer needs to be convinced to carry the product and if there is a premium for that product, to pay it. Convincing all of these elements takes time and education and requires a commitment to see the process through to its conclusion – the successful sale of U.S. goods to that market.

All this means that developing export markets for U.S. agricultural products is quite complex and long term in nature. U.S. exporters have to convince multiple foreign agencies, organizations and purchasers that U.S. products are of excellent quality, grown under the most stringent guidelines and produced in ample quantities; that handling, transporting and processing will not affect the continued high quality or timeliness of delivery; and that U.S. products are priced competitively or well worth any premium that must be paid for them.

These are formidable challenges and may be too overwhelming for a single farm, cooperative, or company. By combining private sector with public resources, U.S. exporters stand a far better chance of finding new markets for their products. USDA makes available a number of programs to help U.S. agricultural exports, including FMD, but also the Market Access Program, export credit guarantees like GSM 102/103 and the Supplier Credit Program, the Emerging Market Program, the Export Enhancement Program, and the Dairy Export Incentive Program.

<u>For the U.S. rice industry as well</u>, this public/private partnership has proven to be very necessary. At a time when the rice industry is experiencing record low prices for its product, and there is thus no additional money that might be generated through checkoff programs that could support increased export promotion efforts, there is no real alternative but the U.S. Government with whom USA Rice Federation can combine its limited farmer and miller resources to help expand overseas markets.

III. The FMD Program is an Important Element of that Partnership.

The Foreign Market Development Program (FMD), also known as the Cooperator Program, is administered by the Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture (USDA). The program uses funds from USDA's Commodity Credit Corporation to aid in the creation, expansion, and maintenance of long-term export markets for U.S. agricultural commodities. First established under the authority of Public Law 480, FMD was re-authorized by Title VII of the Agricultural Trade Act of 1978.

The purpose of the Foreign Market Development program is, quite literally, to develop new markets for the export of U.S. commodities. An organization determines that a potential market exists, but may not be in a position to establish the extent of that potential on its own. Using FMD funds, the cooperator is able to conduct research to determine if the demographics, economic situation, etc. are conducive to the introduction of that commodity into that market. The funds are also used to take U.S. industry teams to meet with local industry and government officials to lay the groundwork for future collaboration. If trade barriers of any kind exist, that is an opportunity to address them. In addition, these funds are used to bring foreign trade teams to the U.S. to demonstrate to them those aspects of the commodity's development, i.e., growing, harvesting, storage, processing, shipping, etc. that would affect those teams' understanding and appreciation of U.S. agricultural products. These funds are also used to continue to develop deeper layers of purchase within the infrastructure so that the demand comes from several sources and not just one. The money is very definitely used to *develop* a foreign market.

For more than 45 years, the program has fostered a trade promotion partnership between USDA and U.S. agricultural producers and processors, who are represented by nonprofit commodity or trade associations called Cooperators. Under this partnership, USDA and the Cooperator pool their technical and financial resources to conduct overseas market development activities that rely heavily on trade servicing and technical assistance in support of high-volume bulk commodities including barley, corn, cotton, dry beans, feed grains, peanuts, rice, soybeans, wheat; related products such as cattle, dairy products, eggs, hogs, poultry, sunflower seeds and associated products. Preference is given to nonprofit U.S. agricultural and trade groups that represent an entire industry or are nationwide in membership and scope.

As with the Market Access Program, the FMD program requires U.S. exporters to contribute their own monies in support of the federal dollars made available. For FY2000, the last FMD year completed, U.S. agriculture contributed $42.194 million of their own money to augment the $30.763 million made available by Congress. Put another way, this means U.S. agriculture contributes $1.37 of their own checkoff and dues dollars for every $1.00 in taxpayer money they use in the FMD program.

<u>For the USA Rice Federation</u>, a variety of these programs are used simultaneously and sequentially to build export market for U.S. rice, depending on the needs of that particular market. For example, FMD activities are used to focus on trade servicing activities around the world, i.e., working with importers, wholesalers, and distributors of U.S. rice overseas as well as foreign food service and hotel/restaurant industries, to name

but a few. The FMD program is used in conjunction with the Market Access Program when the consumer/retail target audience is part of the focus in a particular market. In addition, U.S. Government export credits are also requested to help facilitate sales in certain markets, especially emerging and growth markets, overseas. USA Rice's export programs promote all major forms (rough, brown, white, parboiled) and types (long, medium, and short grain) of U.S.-grown rice.

Without an adequately funded FMD program, USA Rice will have to drastically reduce and/or cancel several of its worldwide activities targeted at markets that represent major growth opportunities for future U.S. rice exports. For example, USA Rice will forgo activities in Syria and Jordan where significant opportunities are expected for U.S. rice – especially medium grain that would likely be sourced either in California or the South -- as state trading continues to give way to private sector rice trading, in Eastern Europe where increasing personal disposable income should lead to increased ability to purchase U.S. rice, and in Taiwan where expectations for U.S. rice are high once Taiwan joins the World Trade Organization.

IV. *<u>But FMD Funding Has Declined in Real Terms Since The Last Farm Bill.</u>*

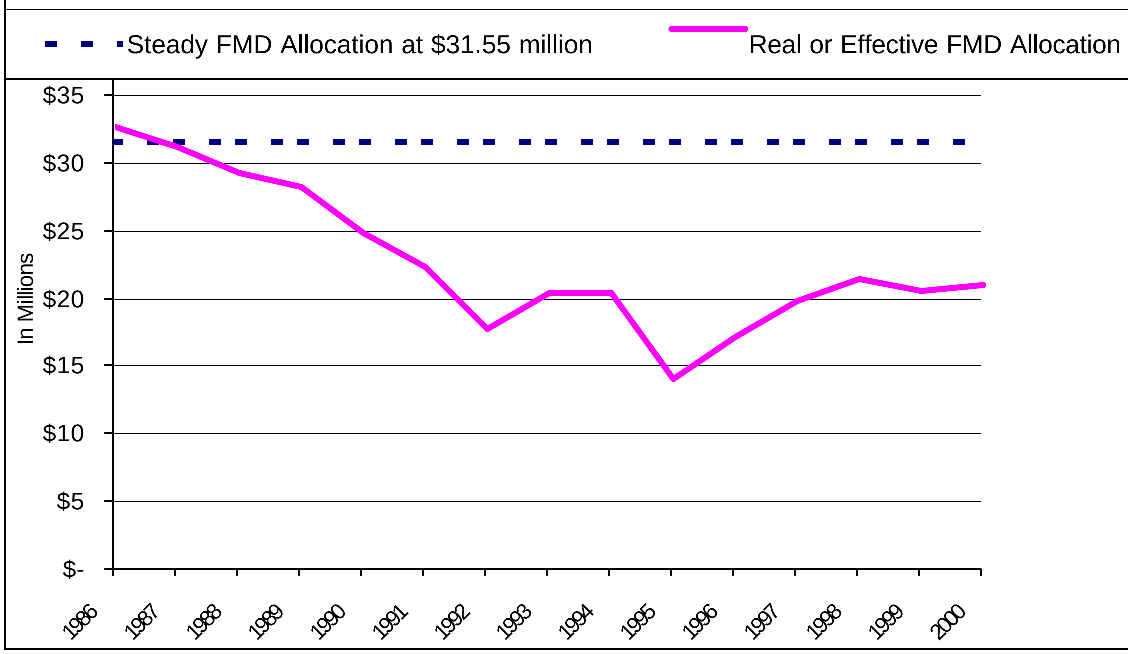
To recap, U.S. farmers and processors of America's bountiful agricultural production depend on a healthy export demand for their livelihood. Like the U.S. rice industry, some agricultural sectors are even more dependent on exports than others.

In the 1986 farm bill, at a time when Congress hoped to make U.S. agricultural production more market-oriented and thus re-emphasized the importance of trade and foreign market development as an important element of the health of the U.S. agricultural sector, FMD was funded at approximately $32 million. Since that time, U.S. Government funding for the FMD program has remained flat.

However, the when adjusted for inflation and exchange rate movements, the actual buying power of that $32 million has been dropping for the last 14 years. In 2000 alone the effective/real buying power of that $32 million has dropped 37.5 percent, to around $20 million. This is, in effect, a program reduction of almost $12 million for last year's FMD program. If we add the differences for each of the past 14 years, the total FMD funding loss that could have grown U.S. agricultural exports is staggering.

<u>For the U.S. rice industry</u>, this is especially problematic as grower checkoff dollars and miller and allied business dues have declined or held flat over the same period due to lower world prices and flat to lower export demand for value-added rice products. Thus, at a time when the U.S. rice sector needs federal export assistance even more than in recent memory, federal dollars have in effect been reduced.

The effective/real buying power of the annual FMD allocation has been dropping for 14 years, reaching a 37.5% ($11.70 million) reduction in buying power last year.



V. And Our Competitors Are Far Outspending Us.

According to USDA/FAS, the main competitors of U.S. agriculture far outspend the USA in export promotion. Note the Cairns Group increased its agricultural exports and its world market share at the same time it increased export promotion spending.

World Agricultural Exports and Market Development By Major Exporting Bloc

	1995	**1996**	**1997**	**1998**
Agricultural Exports ***(in billions of U.S. dollars)***				
Cairns Group	93.4	99.0	104.5	99.2
EU-15	50.6	51.5	52.3	49.5
United States	58.6	62.5	58.6	53.1
Rest of World	85.2	81.0	90.7	83.6
World Total	*287.7*	*293.9*	*306.1*	*285.4*
Market Shares *(expressed as a percent of world exports)*				
Cairns Group	32.46%	33.67%	34.15%	34.75%
EU-15	17.58%	17.51%	17.08%	17.34%
United States	20.36%	21.27%	19.14%	18.61%
Rest of World	29.16%	27.55%	29.62%	29.20%
World Total	*100.00%*	*100.00%*	*100.00%*	*100.00%*
Market Development 1/ *(in millions of U.S. dollars)*				
Cairns Group	282	327	412	592
EU-15	314	329	425	379
United States	225	212	235	287
Rest of World	62	60	45	52
World Total	*883*	*928*	*1,117*	*1,310*
Market Development 1/*(expressed as a percent of worldwide market development)*				
Cairns Group	31.94%	35.24%	36.88%	45.19%
EU-15	35.56%	35.45%	38.05%	28.93%
United States	25.48%	22.84%	21.04%	21.91%
Rest of World	7.02%	6.47%	4.03%	3.97%
World Total	100.00%	100.00%	100.00%	100.00%

1/ Data includes contributions from both governments and producer groups. Overseas producer contributions often come by way of an assessment on the farmers' production (seen by many as an involuntary tax). These contributions provide the necessary funds to subsidize the exports without breaking the letter of the trade agreements. Source: USDA's reconciled global trade database (IBAT) and its 1995-98 annual competitor reports.

VI. Thus, the Farm Bill Must Provide for $43.25 Million for FMD Annually.

Because --

A. U.S. agriculture, especially rice, is facing very difficult times with very low prices for its products; and

B. Foreign governments continue to prevent their markets from being totally open to U.S. agriculture; and

C. Foreign governments and agricultural producers have maintained or increased their spending on export promotion for their own agricultural products at a level higher than that of the United States; and

D. The effective/real buying power of what the U.S. Government is spending in support of exports has declined – in the case of last year's FMD allocation by 37.5 percent.

Therefore, Congress should seek to provide additional assistance to U.S. agriculture through a variety of export promotion and credit programs as part of the next farm bill, including the Market Access Program, export credit guarantee programs, and others.

The FMD program is an integral part of this arsenal of export programs. To have last year attained an effective/real FMD allocation of the $32 million level Congress began allocating to FMD in the 1986 farm bill, a nominal FMD allocation of $43.25 million would have been needed. Thus, for the upcoming farm bill, FMD should be funded at no less than $43.25 million annually.